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SUBJECT: Telecommunication reforms and opportunities in Sri Lanka

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1. Summary: Sri Lanka plans extensive reforms in the telecommunications sector with the aim of developing a technology-neutral, open and convergent telecommunications market. One of the most significant developments will be the opening of international voice services. Other planned reforms include liberalization of all market segments, and deregulation of tariffs and controls on cross ownership of services. A National Communications Policy (NCP) containing these reforms is to be adopted by the Government soon. These reforms will change the telecommunications landscape of the country and help implement an ambitious ICT sector strategy. The reforms, if completed, will also enable Sri Lanka to meet its WTO commitments. End Summary

2. The ending of a 5-year monopoly in August 2002 in international voice services enjoyed by Sri Lanka Telecom (SLT) has presented an opportunity for extensive reforms in the telecommunications sector. Sri Lanka will adopt a new National Communications Policy (NCP) that seeks to promote the establishment of a technology-neutral, open and convergent telecommunications market structure with minimal restrictions and regulations. The policy, the development of which was sponsored through a World Bank consultancy, was drafted with extensive industry and public input. It covers fixed and mobile telephone services, data and internet services, satellite phone services, cable TV and broadcasting services, and tries to meet requirements of technological developments in these markets. The GSL also plans to introduce a new Convergence Act covering ICT, broadcast, media and telecommunications by December 2002. This act will replace the various laws and regulations governing these services.

Opening of international voice services

3. One of the most important reforms is the proposed opening of international voice telephone services. The move will allow fixed voice, mobile and data operators to operate international voice services, and enable Sri Lanka to meet its WTO obligations to liberalize international voice telecommunications (due on December 31, 1999). The new policy will lift current entry barriers to technologies such as Voice Over Internet Protocol (VOIP) and also remove approvals now needed for satellite connections. In addition, it promises a review of the current de facto monopoly of SLT on underground international cables with a view to ending the monopoly.

4. While the GSL plans to fully open the international sector with no predetermined limits on licenses, existing private fixed line telecom operators who have invested heavily on network expansion have warned against a "big bang" opening of the market. Instead, they have urged the government to adopt an incremental approach for the international gateway liberalization by limiting the number of players to two initially. The Government is unlikely to accede to this request. A top government telecom official recently signaled that it would not establish a duopoly, saying that such an arrangement would lead to illegal bypass by other operators.

5. Prior to opening the sector, the GSL is hoping to establish a strong interconnection environment and has invited consultants to advise on three areas - comparative models in international telecom services markets, interconnection agreements, and licensing agreements for new players entering the international voice market. The interconnection agreements will also seek to establish a calling party pay (CPP) system for mobile users, which will significantly boost mobile services.

Opening of other markets

6. In addition to the liberalization of the international gateway, the NCP will allow access by new entrants to fixed wire line and mobile services, and permit cross ownership of

multiple networks and services. At present, mobile operators cannot operate fixed lines and fixed line operators cannot operate mobile services. For an initial period of 12 months, the ownership of multiple services will be allowed only in demarcated low-density areas. Despite the market opening, complete liberalization of wireless services will be delayed until 2005 due to an exclusivity clause in the licenses of the current operators.

Regulation: Communications Regulatory Commission

17. Under the new policy, the Telecommunications Regulatory Commission (TRC) will be named Communications Regulatory Commission (CRC) and will play the role of an independent regulator to create an open and fair environment in line with requirements of WTO's telecommunications services agreement. CRC's regulatory authority is expected to ensure competition in all markets.

18. One of the most significant regulatory changes will be the deregulation of tariffs. Under the policy, CRC will regulate tariffs only in cases of services provided by dominant or monopoly operators, where market forces are insufficient to constrain service pricing. The policy contains safeguards to ensure fair competition in the use of infrastructure including restrictions on operators that have significant market power or control bottleneck facilities. Also in the cards is a review of spectrum management with a view to introducing a transparent spectrum allocation and pricing system. CRC will also be responsible for ensuring access to space management through Intelsat or other satellite systems.

Business opportunities

19. The opening of the telecommunications sector, which is the fastest growing sector in the economy with a growth rate of over 25 percent in 2001, will present significant trade and investment opportunities. Sri Lanka imports various telecommunications equipment from abroad, including the US, to support network expansion. The services to be opened for investment include domestic and international telephone services, leased circuits and dedicated telecommunications networks and services.

10. According to the new policy, CRC may entertain applications without regard to the nature of technology, including fixed wire line or Internet Protocol. Additional licenses will also be issued for mobile and paging services, depending upon the availability of radio frequencies. Investors are likely to enjoy low license fees designed to promote market entry. CRC will also evaluate the feasibility of introducing next generation communication services. Another area to be liberalized is public access services on a resale basis such as public pay phones and tele-centers. The government will also encourage cable TV and other multimedia broadband services.

Expansion of rural services

11. The National Universal Access Policy (NUA) contained in the NCP seeks to promote the expansion of information and communication technology in rural areas not serviced by suppliers on a commercial basis. The services include conventional telephone, Internet and email facilities and establishment of community tele-centers. All telecommunications operators and service providers will be obliged to contribute to the achievement of "national universal access" (NUA) objectives as a condition of their license.

e-Lanka Vision

12. The GSL is planning in the next few weeks to launch a comprehensive ICT road map that details an e-lanka vision for Sri Lanka. Sri Lanka has sought the assistance of various partners such as USAID, the World Bank and the Government of India for the development of the ICT road map. Sri Lanka intends to use ICT as a lever for overall social and economic development in the country. The new NCP is expected to lay the foundation for the implementation of the ICT roadmap by unshackling the sector and opening it for private investment and competition.

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